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**To:** David Scholefield, Chairperson  
Tourism Development Commission

**From:** Karen Churchard, Director  
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**Date:** Feb. 20, 2018

**Subject:** Changes to Financial Policy 21A / Project Prioritization

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#### **BACKGROUND**

At the Jan. 16, 2018 Special Meeting the Commission reviewed proposed changes to the City's Comprehensive Adopted Financial Policy 21A, which outlines how Tourism Development Funds are to be used to support the City's program of tourism development, as well as to support tourism-related events and capital projects.

The Commission reviewed proposed changes and reached this consensus:

1. There was no real objection to setting a percentage for the General Fund, rather than a fixed amount.
2. There was concern that the amount for event and event development may be too small, and the amount for administration and research may be too large.
3. There may be value in setting an amount that is a portion of the remaining amount for operational support.

#### **STAFF RECOMMENDATION**

Following the Commission discussion, staff continued to review the recommended allocations and discuss potential changes. In addition, staff researched the General Fund revenues and expenses in relation to the bed tax transfer in usage.

As a result, staff recommends restoring the General Fund, Events, and Administration levels to the original levels approved in FY 2011/12. This has the effect of reducing the administration/research amount, increasing the event/event development amount, and increasing the General Fund amount. The reasons for each are addressed in the following sections.

Staff recommends the original percentages established in 2011 as shown in Table 1, but with the removal of the one-time commitments category:

A. Destination Marketing	50 percent
B. General Fund	12 percent
C. Tourism-related events and event development	9 percent
D. Tourism-related administration and research	4 percent
E. Tourism-related operating expenses, capital projects and/or operating impacts directly associated with tourism related capital projects	25 percent

**Table 1. Summary of Proposals**

	FY 11/12	Current FY 17/18	Initial Proposal FY 18/19	Updated Proposal FY 18/19	Updated Allocation based on \$19.4 m
A. Destination Marketing	50%	50%	50%	50%	\$9.7 m
B. General Fund	12%	\$1.5 m	11%	12%	\$2.3 m
C. Events/Event Dev.	9%	\$1.2 m	7%	9%	\$1.7 m
D. Admin. / Research	4%	\$0.5 m	6%	4%	\$0.8 m
E. 1-Time Commitments	5%	\$0.5 m	-	-	-
F. Multi-Year Commitments*	20%	\$4.1 m	26%	25%	\$4.9 m
	100%	\$7.8 m	100%	100%	\$19.4 m

\*While not in the percentage, the Princess lease revenues are also allocated to this category

## **ANALYSIS AND ASSESSMENT**

### **General Fund / Bed Tax Transfer In**

*General Fund Revenues* - The city's FY 2017/18 total sources budget for the General Fund is about \$285 million. Currently, \$1.5 million of the Special Revenues Transient Occupancy Tax (Bed Tax) is transferred in to the General Fund, which represents 0.53 percent of the total sources in the General Fund budget.

As outlined above, city staff recommends changing the current allocation of a flat \$1.5 million to a percentage base of 12 percent annually, which equates to \$2.3 million of Bed Tax being transferred in to the General Fund in FY 2018/19. This is approximately 0.81 percent of total sources in the General Fund budget.

*General Fund Expenses* – Overnight visitors that stay in Scottsdale's hotels and pay bed tax use a percentage of services funded by the city's General Fund budget. An analysis of these expenses in the most recent FY 2016/17 is included in the city's [Visitor Statistics Report](#). In 2016/17 about 15 percent of total sales tax collections in the city are attributed to visitors and hospitality employees, which equates to \$26.8 million (Page 11, Figure 5). However, of the total sales tax rate, only 1.10 is available for the General Fund, the other .55 is dedicated towards transportation and the preserve. As a result, this reduces the amount of sales tax paid by visitors as a revenue to the General Fund to about \$17.9 million. In the same fiscal year, the City of Scottsdale spent an estimated \$176.2 million on services to residents and visitors through the General Fund. Based on the allocation of costs, about \$30.3 million (17%) of this total can be attributed to overnight visitors to the city (Page 12, Figure 7). If you tally the General Fund

sales tax paid by visitors, plus the recommended General Fund transfer from bed tax, it totals \$20.2 million, or about 67% of the estimated General Fund cost of overnight visitors.

#### Administration and Events/Event Development Budgets

*Bed Tax Administration/Research Expenses* – Currently, a flat \$500,000 of Bed Tax is allocated to administration/research expenses. Annually, these expenses include: salaries and benefits for two full-time equivalent employees; commission expenses; tourism research; general office expenses; and contractual services that in the past have been used for consulting services for the Tourism Strategic Plan. The updated staff recommendation is changing the flat \$500,000 to a percentage base of 4 percent, which equates to approximately \$776,000 for tourism-related administration and research. The increased allotment would adequately allow for one additional full-time equivalent as well as contractors with specific expertise in the areas of public relations, website, marketing, sponsorship, etc. to assist the department's tourism development activities.

*Events/Event Development* – The updated staff recommendation of a 9 percent allocation to events and event development equates to \$1.74 million. The additional amount could provide funding available for City produced events and a WestWorld Event Solicitation/RFP fund, without jeopardizing support for existing events and new event development.

While reviewing and discussing 21A and the above items with the City Treasurer, it was determined that staff does not support the establishment of a tourism stabilization reserve.

#### Prioritization of Tourism-Related Capital and Operating Projects

The Commission also reviewed and prioritized 29 capital and operating projects to obtain the Commission's top 10 projects. The following 10 projects prioritized in order are:

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|-----|---|-----------|
| 1)  | DDC / Desert EDGE                                 | Capital   |
| 2)  | Canal Convergence                                 | Operating |
| 3)  | WestWorld- Event Solicitation/RFP responses       | Operating |
| 4)  | Scottsdale Stadium Phase I- Event Area, Entrance  | Capital   |
| 5)  | Summer Event Promotion                            | Operating |
| 6)  | WestWorld Capital Improvements                    | Capital   |
| 7)  | Civic Center Phase I – Center of Mall plus Bridge | Capital   |
| 8)  | Marketing Downtown                                | Operating |
| 9)  | Entertainment – Activation Downtown               | Operating |
| 10) | Spring Training Events                            | Operating |

The Commission requested additional detail including project cost of these projects. This additional detail is being developed and will be provided prior to final prioritization.

# Comprehensive Financial Policies & Governing Guidance – *Proposed for FY 2018/19*

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- 21A. One hundred percent (100%) of the transient lodging (bed) taxes received by the city shall be deposited into the Special Revenue Fund for Tourism Development (Tourism Development Fund). Additionally, the Tourism Development Fund shall receive one hundred percent (100%) of Princess Hotel lease revenues.

The transient lodging (bed) tax revenues will be allocated annually as follows:

- Fifty percent (50%) for destination marketing, as approved by the voters;
- Twelve percent (12%) for the General Fund;
- Nine percent (9%) for tourism-related events and event development;
- Four percent (4%) for tourism-related administration and research;
- Twenty-five percent (25%), plus the lease payments on the Princess Resort, or the balance of the remaining Tourism Development Fund revenues, for tourism related operating expenses, capital projects and/or operating impacts that are directly associated with tourism-related capital projects, in the form of one-time commitments or multi-year annual commitments, not to exceed \$600,000 per commitment unless otherwise approved by City Council.

At the end of each fiscal year, any unused funds in the Tourism Development Fund will be available for use in following years for any of the non-marketing tourism categories (except the general fund category) and may be allocated without limitations, except that they may not be leveraged for multi-year annual commitments, such as debt service payments.

In the event of a decrease in Tourism Development Fund revenues, debt service is the priority and will be met first.